

Message Text

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ACTION NEA-10

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INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02 OPIC-03
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EO 11652: N/A
TAGS: ELTN, BDIS, EINV, IR
SUBJ: GM PRODUCTION PLAN APPROVED

REF: TEHRAN 7244

1. MR. G.Y. GENN, NEW GENERAL MOTORS REP IN TEHRAN, BRIEFED THE AMBASSADOR SEPT 12 ON GM'S PLAN TO EXPAND ITS ASSEMBLY PLANT IN TEHRAN. GENN SAID HE HAD BEEN INFORMED SEPT 11 THAT THE SHAH HAD APPROVED THE DOLLARS 200 MILLION EXPANSION PLAN REPORTED REFTEL. GENN HAD NO DOUBT THAT PRIME MINISTER SHARIF-EMAMI WAS INSTRUMENTAL IN OBTAINING THE SHAH'S FAVORABLE DECISION. HE CALLED ON SHARIF-EMAMI THE DAY AFTER HE WAS NAMED PRIME MINISTER--AN APPOINTMENT WHICH HAD BEEN SCHEDULED PREVIOUSLY. SHARIF-EMAMI TOLD GENN THAT HE INTENDED TO RETAIN HIS POSITION AS HEAD OF THE PAHLAVI FOUNDATION AND WOULD TRY TO SPEND ONE DAY A WEEK ON FOUNDATION BUSINESS. THE FOUNDATION OWNS A 10 PERCENT SHARE IN GM'S LOCAL OPERATION, GM 45 PERCENT, AND LOCAL INDUSTRIALIST JAFAR AKHAVAN 45 PERCENT.

2. NOW THAT THE PRODUCTION PLAN HAS BEEN APPROVED THE ONLY OUTSTANDING ISSUE RELATES TO GM'S MANAGEMENT RESPONSIBILITY AND ITS INSISTENCE ON A LIMITED VETO POWER FOR CERTAIN KEY
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DECISIONS. CONTRARY TO THE INFORMATION REPORTED IN PARA 3 REFTEL, GM IS NOW WILLING TO HAVE ITS REPRESENTATIVE APPOINTED MANAGING DIRECTOR OF THE ENTERPRISE, AND THIS APPEARS TO BE FULLY ACCEPTABLE TO THE GOI. GM'S VETO POWER WOULD BE ASSURED BY AMENDING THE ARTICLES OF ASSOCIATION TO REQUIRE THAT SUCH DECISIONS OF THE BOARD BE MADE BY A MINIMUM OF FIVE OF THE SEVEN DIRECTORS. SINCE GM WOULD APPOINT THREE DIRECTORS, ITS VETO

POWER WOULD BE ASSURED FOR DECISIONS SUCH AS APPROVAL OF THE BUDGET, AND COMPLIANCE WITH U.S. LAW (E.G., CORRUPT PRACTICES). GENN SAID THAT HE REGARDED GM'S PAST ARRANGEMENT FOR COMPLETE CONTROL OF THE MANAGEMENT OF THE COMPANY WITHOUT MAJORITY OWNERSHIP AS BEING "UNETHICAL." GM NOW INSISTS THAT THE BOARD IN FACT HAVE NORMAL AUTHORITY FOR CONTROL OF THE ENTERPRISE. GENN ANTICIPATES THAT DESPITE ITS TEN PERCENT SHARE, THE PAHLAVI FOUNDATION WILL IN FACT HAVE A DOMINATING INFLUENCE OVER THE 45 PERCENT SHARE OF AKHAVAN. THE ACTIVE MANAGMENT NOW BEING EXERCISED BY AKHAVAN WILL CEASE ONCE THE ARRANGEMENT IS CONCLUDED. AKHAVAN WILL CONTROL PRODUCTION OF JEEP UNITS, HOWEVER, AND WILL HAVE A SEPARATE PLANT FOR SUCH PRODUCTION AFTER THE EXPANSION IS COMPLETED.

3. THE EXPANSION OF THE ASSEMBLY PLANT WILL ENABLE THE PLANT TO INCREASE PRODUCTION BY 15 UNITS PER HOUR OVER THE FIVE TO SEVEN UNIT CAPACITY OF THE CURRENT LINE. THE PLAN CALLS FOR ESTABLISHMENT OF AN ENGINE PLANT, BUT ITS FIRST STAGE WOULD INVOLVE ENGINE ASSEMBLY ONLY, WITH THE POSSIBILITY OF CONTRACTING OUT LOCAL FORGING OF ENGINE BLOCKS. GENN ANTICIPATES THAT THE GOI WILL CONTINUE TO EXERT PRESSURE FOR EXPORTS AND/OR INCREASING LOCAL CONTENT, BUT INDICATED THAT THERE WOULD BE NO COMMITMENTS.

4. COMMENT: BASED ON GENN'S OPTIMISTIC REPORT, GM APPEARS TO HAVE OVERCOME ITS "BLACK SHEEP" ROLE IN THE AUTOMOBILE LIMITED OFFICIAL USE

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ASSEMBLY INDUSTRY. GENN EMPHASIZED THAT GM'S DECISION IS A PERSONAL COMMITMENT OF ITS PRESIDENT ELLIOT ESTES. THE GOI APPEARS TO HAVE ACCEPTED ESTES' REGRETS FOR GM'S ADMITTED PAST NEGLECT OF ITS IRANIAN OPERATION. THE ROAD AHEAD MAY STILL BE ROUGH, BUT GM AT LEAST APPEARS TO BE BACK ON THE TRACK. THE GOI MAY IN FACT BE ANXIOUS TO CONCLUDE THE DEAL AS A WELCOME SIGN OF FOREIGN INVESTOR CONFIDENCE, EVEN THOUGH ALL FUNDS WILL BE RAISED BY LOCAL BORROWING. SULLIVAN

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